Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Rodney G Kroll
Name of the Holding Company Director and Official

CEO, President and Chairman, Director
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Rodney G Kroll
Signature of Holding Company Director and Official

03/28/2019
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Texas First Bancshares, Inc
Legal Title of Holding Company

P O Box 2524
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Waco	TX	76702-2524

4901 Bosque Blvd
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Rodney G Kroll	President & Chairman

254-741-0100
Area Code / Phone Number / Extension

254-399-6969
Area Code / FAX Number

kroll@texasfirst.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

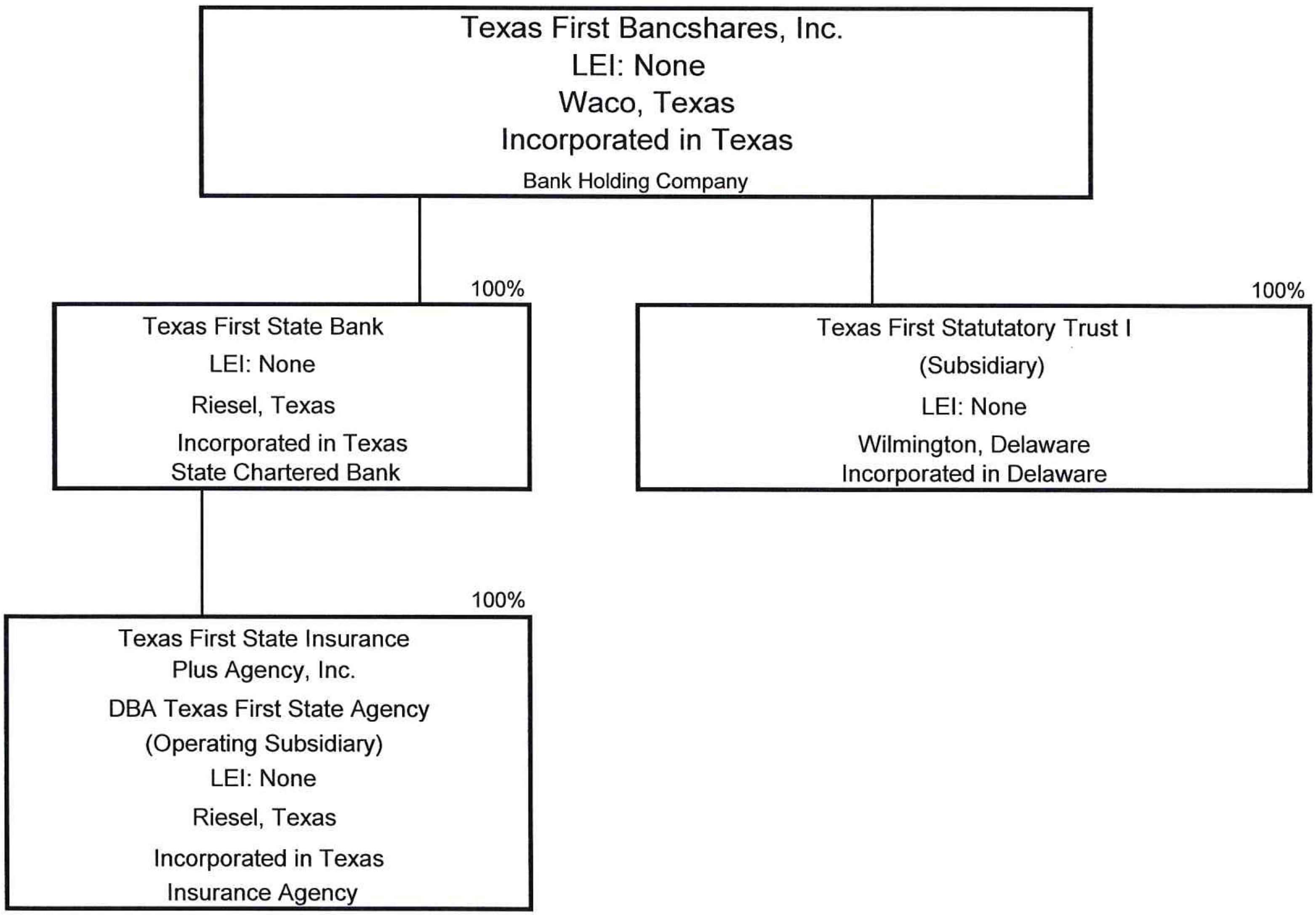
In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Report Item 2a.

Organizational Chart



Results: A list of branches for your depository institution: TEXAS FIRST STATE BANK (ID_RSSD: 655660).
This depository institution is held by TEXAS FIRST BANCSHARES, INC. (1104549) of WACO, TX.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	655660	TEXAS FIRST STATE BANK	400 S. HIGHWAY 6	RIESEL	TX	76682	MCLENNAN	UNITED STATES	Not Required	Not Required	TEXAS FIRST STATE BANK	655660	
OK		Full Service	3228524	GATESVILLE BRANCH	2501 S HWY 36	GATESVILLE	TX	76528-2519	CORYELL	UNITED STATES	Not Required	Not Required	TEXAS FIRST STATE BANK	655660	
OK		Full Service	4842374	KILLEEN BRANCH	3310 EAST CENTRAL TEXAS EXPRESSWAY, SUITE 209	KILLEEN	TX	76543	BELL	UNITED STATES	Not Required	Not Required	TEXAS FIRST STATE BANK	655660	
OK		Full Service	3673227	TEMPLE BRANCH	7285 WEST ADAMS AVENUE	TEMPLE	TX	76502	BELL	UNITED STATES	Not Required	Not Required	TEXAS FIRST STATE BANK	655660	
OK		Full Service	4767703	TEXAS TOWER BRANCH	4901 BOSQUE BOULEVARD	WACO	TX	76710	MCLENNAN	UNITED STATES	Not Required	Not Required	TEXAS FIRST STATE BANK	655660	
OK		Full Service	3537598	WOODWAY BRANCH	101 SANTA FE DRIVE	WOODWAY	TX	76712	MCLENNAN	UNITED STATES	Not Required	Not Required	TEXAS FIRST STATE BANK	655660	

Form FR Y-6

Texas First BancShares, Inc
Riesel, Texas
Fiscal Year Ending December 31, 2018

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Rodney G Kroll Woodway, Texas	USA	4,671 19.49% Common Stock		None	
Tom G. Salome Crawford, Texas	USA	2,177 9.09% Common Stock			

Form FR Y-6

Texas First BancShares, Inc
Riesel, Texas
Fiscal Year Ending December 31, 2018

Report Item 4:
(1)(a)(b)(c) and

(1)	(2)	(3)(a) & (b)		(3)(c)	(4)(a)	(4)(b)	(4)(c)
Names & Address (City, State, Country)	Principal Occupation if other than with holding company	Title & Position with holding company and Subsidiaries		Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Securities in holding company	Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Rodney G. Kroll Woodway, Texas	Banker	Texas First Bancshares, Inc. Texas First State Bank Texas First State Agency Texas First Statutory Trust 1	CEO, Chairman & President, Director Chairman & President, Director Chairman & President Administrator	Riesel Asset Management Corporation Chairman & President	BHC-19.49%	TFSB-None	N/A
Tommy G. Salome Crawford, Texas	Owner Metal Recycling Business	Texas First Bancshares, Inc. Texas First State Bank Texas First Statutory Trust 1	Director Director N/A	President-M. Lipsitz & Co., Ltd. President-Tyler Iron & Metal Co. President- Bryan Iron & Metal Co. President- Terrell Iron & Metal Co. Pres.- San Antonio Iron & Metal Partner-Lipsitz-Salome RE Partner- Salome & Sons RE Partner- Texas Meter & Device Partner-SunWest Land, Ltd. Partner- Bosque Aggregates, LP Partner- SDS Lakeview, Ltd. Chariman of the Board - Market Street Recycling, LP Limited Partner - Salome Family Partnership, Ltd Limited Partner - Cool City Investments, Ltd Stockholder - Bitrage, Inc President, Secretary, Treasurer, Director - Bechtel-Salome Limited Partner - First Title Company of Waco, Inc Limited Partner - Noble Royalty Access Fund V LP Limited Partner - Noble Royalty Access Fund 13, LP Limited Partner - Stageline Homes, LTD	BHC-9.09%	TFSB-None	M. Lipsitz & Co. Ltd.- 50% Sabec, Inc.- 50% Lipsitz-Salome Real Estate- 50% Bechtel-Salome- 33.33% SunWest Land, Ltd. - 50% Bosque Aggregates, LP - 50% The Craft Gallery - 50% SDS Lakeview, Ltd. - 50% Salome Family Partnership, LTD - 53% Stageline Homes, LTD - 49.5%
Rondy T. Gray Waco, Texas	Investments	Texas First Bancshares, Inc. Texas First State Bank Texas First Statutory Trust 1	Director Director N/A	CEO-Bosque Realty, Ltd. Partner-CMC Cityscape II, Ltd.	BHC-0.05%	TFSB-None	Bosque Realty Ltd. - 49% Sanger Plaza-50%
Charles Wiley Axtel, Texas	Aerial Lift Manufacturer	Texas First Banschares, Inc Texas First State Bank Texas First Statutory Trust 1	Director Director N/A	Consultant - Time Manufacturing, Inc	BHC - 0.21%	TFSB-None	N/A
J. Renay Gwin Woodway, Texas	Banker	Texas First Bancshares, Inc. Texas First State Bank Texas First Statutory Trust 1	Secretary Asst. Vice President N/A	N/A	BHC-None	TFSB-None	N/A
Arlene May Hewitt, Texas	Banker	Texas First Bancshares, Inc. Texas First State Bank Texas First Statutory Trust 1	Treasurer/Asst. Secretary SVP & Controller Administrator	N/A	BHC-None	TFSB-None	N/A

Texas First Bancshares, Inc. and Subsidiary

Annual Financial Report
December 31, 2018

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors and Stockholders
Texas First Bancshares, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Texas First Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas First Bancshares, Inc. and Subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

San Antonio, Texas
May 6, 2019

Texas First Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets
December 31, 2018 and 2017
(Dollars in Thousands, Except Share Data)

	2018	2017
Assets		
Cash and due from banks	$ **15,821**	$ 9,904
Federal funds sold	**6,005**	14,995
Cash and cash equivalents	**21,826**	24,899
Interest-bearing deposits in banks	**4,192**	8,368
Securities available for sale	**5,632**	7,411
Securities to be held to maturity	**191,743**	200,477
Restricted securities	**941**	572
Loans, net	**155,492**	151,815
Bank premises and equipment, net	**12,561**	12,837
Accrued interest receivable	**1,405**	1,428
Other assets	**1,486**	1,204
Total assets	$ **395,278**	$ 409,011
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ **74,118**	$ 76,084
Interest-bearing	**286,202**	297,913
Total deposits	**360,320**	373,997
Subordinated debentures	**3,850**	3,850
Junior subordinated debenture	**3,093**	3,093
Accrued expenses and other liabilities	**427**	561
Total liabilities	**367,690**	381,501
Commitments and contingencies (Notes 6, 9, 12 and 13)		
Stockholders' equity:		
Common stock—$1 par value; 1,000,000 shares authorized; 34,138 shares issued and 23,962 shares outstanding at December 31, 2018 (24,420 shares outstanding in 2017)	**34**	34
Additional paid-in capital	**8,895**	8,895
Retained earnings	**23,196**	22,582
Treasury stock—at cost (10,176 shares in 2018 and 9,718 shares in 2017)	**(4,424)**	(3,908)
Accumulated other comprehensive loss	**(113)**	(93)
Total stockholders' equity	**27,588**	27,510
Total liabilities and stockholders' equity	$ **395,278**	$ 409,011

See notes to consolidated financial statements.

Texas First Bancshares, Inc. and Subsidiary

Consolidated Statements of Income
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Interest income:		
Loans, including fees	$ 7,553	$ 7,305
Interest on federal funds sold	233	144
Interest on investments	4,648	3,974
Total interest income	12,434	11,423
Interest expense:		
Deposits	2,664	2,006
Subordinated debentures	231	231
Junior subordinated debenture	147	122
Borrowings	164	5
Total interest expense	3,206	2,364
Net interest income	9,228	9,059
Provision for loan losses	-	-
Net interest income after provision for loan losses	9,228	9,059
Noninterest income:		
Service charges and fees	1,009	1,022
Other	561	577
Total noninterest income	1,570	1,599
Noninterest expense:		
Salaries and employee benefits	5,001	4,846
Occupancy and equipment	1,584	1,598
Other operating	3,432	2,675
Total noninterest expense	10,017	9,119
Income before provision (benefit) for income taxes	781	1,539
Provision (benefit) for income taxes	(71)	252
Net income	$ 852	$ 1,287

See notes to consolidated financial statements.

Texas First Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Net income	$ 852	$ 1,287
Other items of comprehensive income (loss):		
Change in unrealized holding gain (loss) on securities available for sale	(2)	40
Total other items of comprehensive income	(2)	40
Comprehensive income before income tax benefit	850	1,327
Income tax benefit related to other items of comprehensive income:		
Unrealized holding loss on securities available for sale	-	(14)
	-	(14)
Comprehensive income after income tax benefit	$ 850	$ 1,313

See notes to consolidated financial statements.

Texas First Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	$ 34	$ 8,895	$ 21,540	$ (3,870)	$ (119)	$ 26,480
Net income—year ended December 31, 2017	-	-	1,287	-	-	1,287
Purchase of treasury stock	-	-	-	(38)	-	(38)
Dividends paid	-	-	(245)	-	-	(245)
Change in other comprehensive income	-	-	-	-	26	26
Balance at December 31, 2017	34	8,895	22,582	(3,908)	(93)	27,510
Net income—year ended December 31, 2018	-	-	852	-	-	852
Purchase of treasury stock	-	-	-	(516)	-	(516)
Dividends paid	-	-	(256)	-	-	(256)
Reclassification for change in effective tax rate	-	-	18	-	(18)	-
Change in other comprehensive income	-	-	-	-	(2)	(2)
Balance at December 31, 2018	**$ 34**	**$ 8,895**	**$ 23,196**	**$ (4,424)**	**$ (113)**	**$ 27,588**

See notes to consolidated financial statements.

Texas First Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Cash flows from operating activities:		
Net income	$ 852	$ 1,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	583	562
Net amortization/accretion of investment security premiums and discounts	1,213	1,486
Deferred federal tax expense (benefit)	28	(31)
Gain on sale of fixed assets	(105)	(3)
Net change in:		
Accrued interest receivable	23	59
Other assets	(282)	(12)
Accrued expenses and other liabilities	(162)	(221)
Net cash provided by operating activities	2,150	3,127
Cash flows from investing activities:		
Proceeds from maturities, calls, and paydowns of held-to-maturity securities	53,043	40,154
Proceeds from maturities of available-for-sale securities	1,779	-
Purchases of held-to-maturity securities	(45,525)	(50,809)
Purchases of restricted securities	(369)	(6)
Net change in interest-bearing deposits in banks	4,176	7,164
Net change in loans	(3,677)	(3,064)
Proceeds from sale of fixed assets	213	3
Capital expenditures	(414)	(365)
Net cash provided by (used in) investing activities	9,226	(6,923)
Cash flows from financing activities:		
Net change in deposits	(13,677)	15,120
Net payments on borrowings and short-term debt	-	(3,000)
Purchase of treasury stock	(516)	(38)
Dividends paid	(256)	(245)
Net cash provided by (used in) financing activities	(14,449)	11,837
Net increase (decrease) in cash and cash equivalents	(3,073)	8,041
Cash and cash equivalents at beginning of year	24,899	16,858
Cash and cash equivalents at end of year	$ 21,826	$ 24,899
Schedules of other cash flow information:		
Federal income taxes paid	$ -	$ 199
Interest paid	$ 3,137	$ 2,457

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements include the accounts of Texas First Bancshares, Inc. and its wholly owned subsidiary, Texas First State Bank (the Bank), and the Bank's wholly owned subsidiary, Texas First State Insurance Plus Agency, Inc., dba Texas First State Agency (TFSA), (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations: The Company provides a variety of financial services to individuals and small businesses through its offices in Waco, Killeen, Woodway, Riesel, Temple and Gatesville, Texas. Its primary deposit products are money market and term certificate accounts, and its primary lending products are commercial and real estate loans. TFSA sells property, casualty and life insurance, as well as other personal insurance.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of available-for-sale securities.

New and recently issued accounting standards: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard supersedes existing guidance on revenue recognition and requires the use of more estimates and judgements than present standards. It also requires additional disclosures. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 one year, making it effective for the Company in 2019. The Company expects the adoption of this ASU will not have a material effect on its financial position or results of operations.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* with further clarifications made in February 2018 with the issuance of FASB ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)*: *Recognition and Measurement of Financial Assets and Financial Liabilities.* The guidance updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. The provisions of ASU No. 2016-01 will be effective for the Company in 2019 and the Company expects the adoption of this ASU will not have a material effect on its financial position or results of operations. The Company elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and, as such, these disclosures are not included herein.

Note 1. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU No. 2016-02*, Leases (Topic 842*), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective for years ending after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance-sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance-sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale debt securities will also be recognized through an allowance; however, the allowance for an individual available-for-sale debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense.

Expanded disclosures will also be required. Transition will generally be on a modified retrospective basis, with certain prospective application transition provisions for securities for which other-than-temporary impairment had previously been recognized and for assets that had previously been accounted for in accordance with Subtopic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Amendments to the ASU have made the effective date for implementation of this new standard by nonpublic entities to be fiscal years beginning after December 15, 2021, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Significant group concentrations of credit risk: Most of the Company's activities are with customers located within Central Texas and the surrounding areas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. Although the Company has a diversified loan portfolio, the Company may be exposed to credit risk from a regional economic standpoint, as borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which they reside.

Note 1. Summary of Significant Accounting Policies (Continued)

Interest-bearing deposits in banks: Interest-bearing deposits in banks are carried at cost and include certificates of deposit with other financial institutions that mature within one year.

Securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2018 and 2017, the Company had no securities classified as trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted investment securities: Restricted investment securities consist of Federal Home Loan Bank (FHLB) stock and The Independent Bankers Bank stock, which are carried at cost on the consolidated balance sheets. These equity securities are restricted in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No other-than-temporary write-downs have been recorded on these securities. There has been no impairment to date.

Loans: The Company grants real estate, commercial, consumer and agriculture loans to customers.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days' delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 120 days' past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

Note 1. Summary of Significant Accounting Policies (Continued)

All interest accrued, but not collected, for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral, if the loan is collateral-dependent.

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for loan losses: The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with the *FASB Accounting Standards Codification* (ASC), Receivables, and ASC, Contingencies. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations and loan quality trends, including trends in nonaccrual, past-due and classified loans; current period loan charge-offs and recoveries. The determination also includes qualitative aspects, such as changes in local, regional or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement.

Note 1. Summary of Significant Accounting Policies (Continued)

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

Bank premises and equipment: Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives range from one to 40 years.

Long-lived assets: Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from operations of the asset are less than the carrying value of the asset. The cash flows used for this analysis are those directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds its fair value. No asset impairments were recognized during the years ended December 31, 2018 and 2017.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Under ASC Topic 350, goodwill is not amortized but is tested for impairment on an annual basis, or between annual tests if an event occurs or circumstances change that would reduce the fair value of the reporting unit below its carrying amount. Goodwill of $650 thousand is included in other assets in the accompanying consolidated balance sheets at December 31, 2018 and 2017. For the years ended December 31, 2018 and 2017, the Company performed a qualitative assessment and determined no impairment of goodwill had occurred.

Off-balance-sheet credit-related financial instruments: In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash and due from banks include cash, balances due from banks and federal funds sold. The Company maintains cash in deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company is subject to Texas gross margin tax.

The Company accounts for uncertainty in income taxes in accordance with the provisions of ASC Topic 740, Accounting for Uncertainty in Income Taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

Revenue recognition: Interest income and expense are recognized on the accrual method based on the respectively outstanding balance. Other revenue is recognized at the time the service is rendered or transactions occur.

Advertising costs: Advertising costs are expensed as incurred.

Subsequent events: The Company has evaluated subsequent events through May 6, 2019, the date the consolidated financial statements were available to be issued.

Reclassification: Certain reclassifications have been made in the prior-year consolidated financial statements to conform to current-year presentation. There is no effect on previously reported net income or retained earnings.

Note 2. Fair Value Measurements

The Company follows the provisions of ASC, Fair Value Measurements and Disclosures. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a class basis rather than a major category basis for assets and liabilities and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Note 2. Fair Value Measurements (Continued)

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels.

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

Level 2: Observable inputs, other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets or other observable inputs that can be corroborated by observable market data.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned.

Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets and for disclosures of certain financial instruments.

There were no significant transfers among the three hierarchy levels of input.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Note 2. Fair Value Measurements (Continued)

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2018 and 2017, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Total Fair Value Measurement at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
United States government agency securities	$ -	$ 5,632	$ -	$ 5,632

	Total Fair Value Measurement at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
United States government agency securities	$ -	$ 7,411	$ -	$ 7,411

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Impaired loans: The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

The following table summarizes assets as of December 31, 2018 and 2017, that are measured at fair value by class on a nonrecurring basis, are as follows (dollars in thousands):

	Total Fair Value Measurement at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 1,131	$ 1,131

	Total Fair Value Measurement at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 175	$ 175

Note 3. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2018 and 2017, this reserve balance totaled $-0-.

Note 4. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	Securities Available for Sale at December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
United States government agencies securities	$ 5,775	$ -	$ 143	$ 5,632

	Securities Available for Sale at December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
United States government agencies securities	$ 7,552	$ -	$ 141	$ 7,411

	Securities Held to Maturity at December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
United States government agencies securities	$ 20,326	$ 8	$ 422	$ 19,912
Municipals	40,122	192	279	40,035
Mortgage-backed securities	131,295	111	3,581	127,825
	$ 191,743	$ 311	$ 4,282	$ 187,772

	Securities Held to Maturity at December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
United States government agencies securities	$ 17,519	$ 26	$ 304	$ 17,241
Municipals	47,414	453	224	47,643
Mortgage-backed securities	135,544	114	2,449	133,209
	$ 200,477	$ 593	$ 2,977	$ 198,093

At December 31, 2018, the Company had available-for-sale securities carried at approximately $5.5 million (approximately $7.3 million in 2017) and held-to-maturity securities carried at approximately $72.0 million (approximately $78.5 million in 2017) pledged to secure public funds and for other purposes required or permitted by law.

Note 4. Investment Securities (Continued)

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities by contractual maturity at December 31, 2018, were as follows (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Approximate Fair Value
Due in one year or less	$ 8,766	$ 8,765	$ -	$ -
After one year through five years	31,081	30,901	5,775	5,632
After five years through ten years	20,312	19,983	-	-
Over ten years	289	298	-	-
	60,448	59,947	5,775	5,632
Mortgage-backed securities	131,295	127,825	-	-
	$ 191,743	$ 187,772	$ 5,775	$ 5,632

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (dollars in thousands):

	Securities Available for Sale at December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government agency securities	$ -	$ -	$ 5,632	$ 143	$ 5,632	$ 143

	Securities Available for Sale at December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government agency securities	$ -	$ -	$ 7,411	$ 141	$ 7,411	$ 141

	Securities Held to Maturity at December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government agency securities	$ 1,049	$ -	$ 16,023	$ 422	$ 17,072	$ 422
Municipals	3,815	36	14,911	243	18,726	279
Mortgage-backed securities	17,070	193	100,282	3,388	117,352	3,581
	$ 21,934	$ 229	$ 131,216	$ 4,053	$ 153,150	$ 4,282

Note 4. Investment Securities (Continued)

	Securities Held to Maturity at December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government agency securities	$ 10,024	$ 162	$ 6,355	$ 142	$ 16,379	$ 304
Municipals	12,716	129	4,194	95	16,910	224
Mortgage-backed securities	50,846	611	77,197	1,838	128,043	2,449
	$ 73,586	$ 902	$ 87,746	$ 2,075	$ 161,332	$ 2,977

As of December 31, 2018, there were 251 securities with unrealized losses, including 213 securities with unrealized losses greater than 12 months (227 securities, with 121 securities with unrealized losses greater than 12 months in 2017). Based upon an evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the decline in fair value of these debt securities is temporary. In addition, the Company does not have the intent to sell these debt securities prior to their anticipated recovery.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. Declines in the fair value of held-to-maturity and available-for-sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses. As of December 31, 2018 and 2017, the Company did not have any securities with other-than-temporary impairment.

Note 5. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31	
	2018	2017
Real estate	$ 129,817	$ 116,825
Commercial	22,407	31,125
Consumer and other	2,418	2,981
Agriculture	1,416	1,453
	156,058	152,384
Allowance for loan losses	(566)	(569)
	$ 155,492	$ 151,815

Included in consumer and other loans are overdrafts of $38 thousand as of December 31, 2018 ($40 thousand in 2017).

Note 5. Loans and Allowance for Loan Losses (Continued)

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. The Company's extension of credit is governed by the individual loan policies that were established to control the quality of the Company's loans. These policies and procedures are reviewed and approved by the Board of Directors (the Board) on a regular basis. Specific loan terms vary as to interest rate, repayment and collateral requirements based on the type of loan requested and the creditworthiness of the prospective borrower. Credit risk tends to be geographically concentrated in that a majority of the loan customers are located in the markets serviced by the Company.

Real estate loans: Real estate loans include commercial and residential real estate loans.

Commercial real estate loans: The Company's goal is to create a high-quality portfolio of commercial real estate loans with customers who meet the quality and relationship profitability objectives of the Company. Commercial real estate loans are subject to underwriting standards and are made primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. These loans are analyzed using projected cash flows, and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market, such as geographic location and property type.

Residential real estate loans: The Company originates loans secured by one- to four-family residential property that is located in its market area. The underwriting process consists of a credit analysis, employment history and an analysis of the secured real estate property. The repayment and collectibility of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography and risk criteria.

Commercial loans: Commercial operating and term loans are originated in the Company's primary service area. These loans are made to individuals, partnerships and corporations for the purpose of assisting in the development of a business enterprise. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and may also include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and to collect amounts due from their customers. The cash flow of borrowers may not perform as forecasted, and collateral securing the loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Consumer and other loans: The Company originates direct consumer loans, including vehicle loans and other personal loans, using criteria established by the Company's credit policy. Each loan type has separate specified factors upon which credit decisions are based. These factors include credit history, repayment ability of the borrower based on current personal income and collateral type and value. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Note 5. Loans and Allowance for Loan Losses (Continued)

Agriculture loans (including real estate): Agriculture operating and term loans are originated in the Company's primary service area and are generally used to purchase agricultural equipment, livestock or crop inputs. These loans are primarily secured by the related agricultural real estate, equipment, livestock or crops. Agricultural term and operating loans are made primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flow of borrowers, however, may not perform as forecasted, and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all agricultural loan types.

The Company originates loans secured by agricultural real estate in its service area. Agricultural land in the Company's service area is considered to be prime agricultural land. These loans are underwritten using both a cash flow analysis and appraised values.

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows.

Pass (Grades 0-2): Pass loans are to borrowers with acceptable credit quality and risk.

Watch (Grade 3): Watch loans are to borrowers with acceptable credit quality and risk; however, in terms of size, secondary sources of repayment or other key credit criteria there could be potential weaknesses that deserve management's close attention.

Other assets especially mentioned (OAEM) (Grade 4): OAEM loans are to borrowers whose credit quality may have deteriorated since origination and are at risk of further decline unless measures are taken to correct the situation.

Substandard (Grade 5): Substandard loans are to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain.

Doubtful (Grade 6): Doubtful loans are to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2018 and 2017, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	December 31, 2018					
	Pass	Watch	OAEM	Substandard	Doubtful	Total Loans
Real estate	$ 128,670	$ 36	$ 687	$ 424	$ -	$ 129,817
Commercial	22,372	5	-	17	13	22,407
Consumer and other	2,387	8	-	23	-	2,418
Agriculture	749	-	-	667	-	1,416
	$ 154,178	$ 49	$ 687	$ 1,131	$ 13	$ 156,058

Note 5. Loans and Allowance for Loan Losses (Continued)

	December 31, 2017					
	Pass	Watch	OAEM	Substandard	Doubtful	Total Loans
Real estate	$ 116,277	$ 488	$ -	$ 60	$ -	$ 116,825
Commercial	26,035	2,389	2,607	94	-	31,125
Consumer and other	2,943	3	-	35	-	2,981
Agriculture	437	1,016	-	-	-	1,453
	$ 145,692	$ 3,896	$ 2,607	$ 189	$ -	$ 152,384

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2018 and 2017, was as follows (dollars in thousands):

	December 31, 2018					
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate	$ 493	$ -	$ 493	$ 129,324	$ 129,817	$ -
Commercial	374	-	374	22,033	22,407	-
Consumer and other	23	9	32	2,386	2,418	9
Agriculture	-	-	-	1,416	1,416	-
	$ 890	$ 9	$ 899	$ 155,159	$ 156,058	$ 9

	December 31, 2017					
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate	$ 84	$ 60	$ 144	$ 116,681	$ 116,825	$ -
Commercial	667	9	676	30,449	31,125	9
Consumer and other	25	1	26	2,955	2,981	-
Agriculture	-	-	-	1,453	1,453	-
	$ 776	$ 70	$ 846	$ 151,538	$ 152,384	$ 9

Note 5. Loans and Allowance for Loan Losses (Continued)

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2018 and 2017, is as follows (dollars in thousands):

	December 31, 2018				
	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
Real estate	$ 424	$ -	$ 424	$ -	$ 273
Commercial	17	13	30	13	31
Consumer and other	23	-	23	-	29
Agriculture	667	-	667	-	334
	$ 1,131	$ 13	$ 1,144	$ 13	$ 667

	December 31, 2017				
	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
Real estate	$ 122	$ -	$ 122	$ -	$ 95
Commercial	-	32	32	11	72
Consumer and other	29	6	35	3	56
Agriculture	-	-	-	-	-
	$ 151	$ 38	$ 189	$ 14	$ 223

During the years ended December 31, 2018 and 2017, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

As of December 31, 2018, there are no loans that have been modified into a troubled debt restructuring (approximately $32 thousand in 2017).

Note 5. Loans and Allowance for Loan Losses (Continued)

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2018 and 2017, were as follows (dollars in thousands):

	Year Ended December 31, 2018				
	Real Estate	Commercial	Consumer and Other	Agriculture	Total
Balance at beginning of year	$ 344	$ 169	$ 21	$ 35	$ 569
Provision for loan losses	-	-	-	-	-
Charge-offs	-	(14)	(35)	-	(49)
Recoveries	-	12	21	13	46
Net (charge-offs) recoveries	-	(2)	(14)	13	(3)
Balance at end of year	$ 344	$ 167	$ 7	$ 48	$ 566
Allocation:					
Individually evaluated for impairment	$ -	$ 13	$ -	$ -	$ 13
Collectively evaluated for impairment	344	154	7	48	553

	Year Ended December 31, 2017				
	Real Estate	Commercial	Consumer and Other	Agriculture	Total
Balance at beginning of year	$ 344	$ 134	$ 62	$ 169	$ 709
Provision for loan losses	-	-	-	-	-
Charge-offs	-	-	(61)	(169)	(230)
Recoveries	-	35	20	35	90
Net (charge-offs) recoveries	-	35	(41)	(134)	(140)
Balance at end of year	$ 344	$ 169	$ 21	$ 35	$ 569
Allocation:					
Individually evaluated for impairment	$ -	$ 11	$ 3	$ -	$ 14
Collectively evaluated for impairment	344	158	18	35	555

The Company's recorded investment in loans as of December 31, 2018 and 2017, related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

	Year Ended December 31, 2018				
	Real Estate	Commercial	Consumer and Other	Agriculture	Total
Loans individually evaluated for impairment	$ 424	$ 30	$ 23	$ 667	$ 1,144
Loans collectively evaluated for impairment	129,393	22,377	2,395	749	154,914
	$ 129,817	$ 22,407	$ 2,418	$ 1,416	$ 156,058

Note 5. Loans and Allowance for Loan Losses (Continued)

	Year Ended December 31, 2017				
	Real Estate	Commercial	Consumer and Other	Agriculture	Total
Loans individually evaluated for impairment	$ 122	$ 32	$ 35	$ -	$ 189
Loans collectively evaluated for impairment	116,703	31,093	2,946	1,453	152,195
	$ 116,825	$ 31,125	$ 2,981	$ 1,453	$ 152,384

During the year ended December 31, 2018, the Company did not implement any significant changes to its allowance for loan loss methodology.

Note 6. Bank Premises and Equipment

Components of bank premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31	
	2018	2017
Land	$ 4,542	$ 4,634
Construction in progress	119	99
Building and improvements	9,758	9,649
Furniture and equipment	3,007	2,735
	17,426	17,117
Less accumulated depreciation	4,865	4,280
	$ 12,561	$ 12,837

Depreciation expense for the year ended December 31, 2018 totaled $583 thousand ($562 thousand in 2017).

The Company has noncancelable operating leases for a branch and equipment with terms ending between 2019 and 2020.

Rental expense is recognized using the straight-line method. Rental expense for the year ended December 31, 2018, totaled $51 thousand ($49 thousand in 2017).

The future minimum rental commitments of agreements under these leases as of December 31, 2018, are as follows (dollars in thousands):

Years ending December 31:	
2019	$ 38
2020	3
	$ 41

Note 7. Deposits

A summary of deposits included in the consolidated balance sheets is as follows (dollars in thousands):

	December 31 2018	December 31 2017
Demand	$ 74,118	$ 76,084
NOW and money market	180,368	193,083
Savings	14,405	11,781
Time deposits	91,429	93,049
	$ 360,320	$ 373,997

The aggregate amount of certificates of deposit (CDs) in denominations of $250 thousand or more, totaled approximately $36.3 million at December 31, 2018 (approximately 37.1 million in 2017).

At December 31, 2018, the scheduled maturities of CDs are as follows (dollars in thousands):

Years ending December 31:	
2019	$ 73,464
2020	8,780
2021	4,963
2022	2,217
2023 and thereafter	2,005
	$ 91,429

Note 8. Federal Income Taxes

The provision (benefit) for federal income taxes consists of and represents the tax effect of the following (dollars in thousands):

	Years Ended December 31 2018	Years Ended December 31 2017
Currently paid or payable (receivable)	$ (99)	$ 283
Deferred federal income tax expense (benefit)	28	(31)
	$ (71)	$ 252

Note 8. Federal Income Taxes (Continued)

The provision (benefit) for federal income tax differs from the amount which would be provided by applying the statutory federal income tax rates (21 percent and 34 percent for 2018 and 2017, respectively) as indicated in the following analysis (dollars in thousands):

	Years Ended December 31 2018	2017
Computed at expected statutory rate	$ 164	$ 523
Deferred tax adjustment for tax rate change	-	27
Effect of tax-exempt income	(179)	(335)
Interest and other nondeductible expenses	21	28
Other	(77)	9
	$ (71)	$ 252

The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

	December 31 2018	2017
Deferred tax asset:		
Allowance for loan loss	$ 90	$ 90
Nonaccrual loans	-	3
Available for sale securities	30	30
Other	38	10
Total deferred tax assets	158	133
Deferred tax liability:		
Depreciation	(103)	(49)
Other	-	(1)
Total deferred tax liabilities	(103)	(50)
Net deferred tax asset	$ 55	$ 83

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of projections for future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at December 31, 2018.

The Company files a United States federal income tax return, as well as a state return in Texas. With few exceptions, the Company is no longer subject to United States federal or Texas state tax examinations by tax authorities for years before 2015.

Note 8. Federal Income Taxes (Continued)

On February 14, 2018, ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, was issued, allowing for a one-time reclassification from accumulated other comprehensive income or loss to retained earnings of certain deferred tax items that had been stranded in accumulated other comprehensive income or loss as a result of tax adjustments made in connection with the enactment of the Tax Cuts and Jobs Act (TCJA). The Company adopted its provisions and recorded a reclassification of $18 thousand as of December 31, 2018.

As a result of the enactment of TCJA in December 2017, the Company revalued its deferred tax assets and liabilities arising from temporary differences and unrealized gains and losses on available-for-sale securities using the new corporate tax rate of 21 percent that took effect on January 1, 2018. The effect of this revaluation was a one-time charge to income tax expense of $27 thousand for the year ended December 31, 2017.

Note 9. Borrowings

FHLB borrowings are secured by a blanket lien on certain real estate loans. As of December 31, 2018 and 2017, there were no outstanding FHLB. The total available line of credit at the FHLB was $74.5 million as of December 31, 2018.

During 2018, the Company entered into federal funds lines of credit with other financial institutions with an aggregate amount of $9.0 million. As of December 31, 2018, there were no outstanding balances.

Note 10. Subordinated Debentures

The Company has unsecured subordinated debentures totaling $3.9 million outstanding as of December 31, 2018 and 2017. These debentures require semiannual interest payments at a fixed rate of 6 percent, with $500 thousand of these subordinated debentures maturing in September 2019 and $3.4 million maturing in June 2023.

Note 11. Junior Subordinated Debentures

On September 20, 2004, the Company established the Texas First Statutory Trust I (the Trust I) with capital of $93 thousand. The Trust I issued $3 million in pooled Trust Preferred Securities to outside investors. The Trust Preferred Securities bear interest at a floating rate based on the three-month LIBOR plus 2.55 percent (5.35 percent and 4.24 percent at December 31, 2018 and 2017, respectively). The Trust Preferred Securities mature and are payable in September 2034.

In connection with the transaction, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures (the Debentures) to the Trust I for $3.1 million with interest and maturity terms identical to the Trust Preferred Securities. In accordance with the ASC, the Trust I is not consolidated in the accompanying consolidated financial statements. Instead, the investment in the Trust I is shown in other assets and the debentures in junior subordinated debenture on the consolidated balance sheets. Interest expense on the debentures is reported in the consolidated statements of income.

Note 12. Off-Balance-Sheet Activities

Credit-related financial instruments: The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	Contract Amount	
	December 31	
	2018	2017
Unfunded commitments under lines of credit	$ 14,698	$ 19,470
Standby letters of credit	605	2,905

Unfunded commitments under lines of credit include revolving credit lines, straight-credit lines and interim construction loans, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed. To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's credit evaluation of the customer. Collateral held varies, but may include cash; securities; accounts receivable; inventory; property, plant and equipment; and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

Note 13. Legal Contingencies

The Company may, from time to time, be involved in litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigations and claims will not be material to the Company's consolidated financial position.

Note 14. Related-Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates. The aggregate balance of loans to related parties at December 31, 2018, totaled $5.8 million ($6.4 million in 2017). Unfunded commitments under lines of credit with related parties totaled $724 thousand at December 31, 2018 ($1.2 million in 2017).

Deposits from related parties held by the Bank at December 31, 2018, totaled $24.4 million ($40.4 million in 2017).

Note 15. Employee Benefits

The Company has a defined contribution plan covering substantially all of its employees. Employees may contribute a percentage of their salary to the plan, subject to certain limitations imposed by the Internal Revenue Code. The Company may make matching contributions at its discretion and generally matches employee contributions at the rate of 50 percent for the first 4 percent of compensation. Upon approval of the Board, the Company may also make discretionary contributions to the plan. The Company made total contributions to the plan of approximately $39 thousand during the year ended December 31, 2018 (approximately $37 thousand in 2017).

Note 16. Capital and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting and other factors.

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the tables below) of Common Equity Tier 1 Capital, Tier 1 Capital, Total Capital to Risk-Weighted Assets and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Management believes, as of December 31, 2018 and 2017, the Bank met all capital adequacy requirements to which it is subject. As of December 31, 2018, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following tables present actual and required capital ratios as of December 31, 2018 and 2017, for the Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2018 and 2017, based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019, when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	December 31, 2018							
	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 33,025	16.7%	$ 12,637	6.4%	$ 13,876	7.0%	$ 12,884	6.5%
Tier 1 Capital to Risk-Weighted Assets	33,025	16.7%	15,610	7.9%	16,849	8.5%	15,858	8.0%
Total Capital to Risk-Weighted Assets	33,591	16.9%	19,575	9.9%	20,813	10.5%	19,822	10.0%
Tier 1 Capital to Average Assets	33,025	8.3%	15,939	4.0%	15,939	4.0%	19,923	5.0%

Note 16. Capital and Regulatory Matters (Continued)

	December 31, 2017							
	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 32,231	16.6%	$ 11,186	5.8%	$ 13,618	7.0%	$ 12,645	6.5%
Tier 1 Capital to Risk-Weighted Assets	32,231	16.6%	14,104	7.3%	16,536	8.5%	15,564	8.0%
Total Capital to Risk-Weighted Assets	32,800	16.9%	17,995	9.3%	20,427	10.5%	19,454	10.0%
Tier 1 Capital to Average Assets	32,231	8.1%	15,993	4.0%	15,993	4.0%	19,991	5.0%

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